

3QFY16 RESULTS UPDATE

30 December 2016

SMRT Holdings Berhad

Bursa / Bloomberg Code: 0117 / SMRT MK
Stock is Shariah-compliant.

Price : RM0.18

Market Capitalization : RM51.4 mln

Market : ACE Market

Sector : Technology

Recommendation : Hold

Recent Development

SMRT and its associate company, Asiamet Education Group (AEGB) had on 5 December 2016 announced proposals that involved SMRT disposing its 100%-stake CUCMS Education Sdn Bhd – the operator of the profitable Cyberjaya University College of Medical Sciences in Cyberjaya, Selangor – to AEGB for RM166 mln, to be satisfied via issuance of a total of 830 mln new shares in AEGB at issue price of RM0.20 each. To recap, AEGB operates the Asiamet Metropolitan University (AMU) and the proposals are part of SMRT and AEGB's efforts to streamline and reorganize their education businesses.

SMRT will effectively hold 75.99% of AEGB following the disposal of CUCMS. The Group plans to place out AEGB shares to pare down its shareholding in AEGB to 55.35%. On AEGB's part of internal reorganization to rebrand and reposition itself, AEGB intends to then dispose its stake in CUCMS together with other major subsidiaries to a Newco, and the Newco will subsequently assume the listing of AEGB.

SMRT is providing a profit guarantee to AEGB amounting to an aggregate of RM24.84 mln over 3-year period from FY17 to FY19 for CUCMS' operations, translating into an average net profit of RM8.3 mln per year. Based on the forward net profit of RM8.3 mln per annum, SMRT is disposing CUCMS at PER of 20x and P/B of 6.7x, which is within the education peers' PER range of 19x-33x, but higher than peers' P/B range of 1.9x-3.6x. Compared to the disposal price of RM166 mln, SMRT's cost of investment in CUCMS is much lower at RM46.4 mln.

The collective proposals require a number of approvals, which include, among others, approvals from Ministry of Higher Education, Bursa Securities, Securities Commission, as well as shareholders of SMRT and AEGB respectively. Both SMRT and AEGB endeavour to complete the proposals by 2nd quarter of 2017 barring unforeseen circumstances.

We take a cautious positive view on the proposals at this juncture. We do concur that post restructuring exercise, the Newco could benefit from cost savings and improved efficiency arising from synergies between CUCMS and AMU, as well as better coordinated business planning and marketing strategies. The education groups shall be led by one management team instead of the current two teams.

On the flip side, the concern we have is the lower earnings contribution from CUCMS to the SMRT Group in the future as its effective interest would be reduced from 100% to the eventual 55%-stake in the Newco. With its training and technology businesses still making losses, the reduced profit contribution from CUCMS would not bode well for the Group. Hence, the prospect of SMRT going forward critically hinges on its ability to turn around the training and technology business, as well as to turn around the loss-making AMU operations. In the near term though, we expect SMRT to record profit in FY17 as and when the proposals are completed as it would recognize a rather substantial gain on disposal of CUCMS (but no impact on cashflow as the consideration is satisfied via issuance of shares). Note that the disposal amount of RM166 mln is 3x of SMRT's current market capitalization.

We have not factored in the implication of the proposals into our earnings estimates at this juncture as they are subject to a number of approvals, and would take some time to complete the proposed transactions.

3QFY16 Results Review

SMRT: 3QFY16 results

FYE Dec (RM mln)	Quarter-on-Quarter			Year-on-Year		Cumulative		
	3QFY16	2QFY16	% chg	3QFY16	% chg	9MFY16	9MFY15	% chg
Turnover	22.3	19.4	14.9%	26.8	-17.0%	61.5	81.9	-24.9%
Operating profit	(1.0)	(2.3)	55.6%	(2.6)	60.9%	(4.0)	1.8	nm
Share of assc. profit	(1.3)	(1.1)		(0.8)		(3.1)	(2.2)	
Finance costs	(0.8)	(0.8)		(0.7)		(2.5)	(2.5)	
Pre-tax profit	(3.1)	(4.2)	26.3%	(4.1)	23.3%	(9.6)	(2.9)	-232.8%
Tax	(1.5)	(0.6)		(0.8)		(2.8)	(3.5)	
Minority Interest	(0.2)	(0.1)		0.0		(0.4)	0.0	
Net profit	(4.8)	(4.9)	0.4%	(4.8)	-0.2%	(12.8)	(6.4)	-101.1%
Reported EPS (sen)	(1.7)	(1.8)		(1.9)		(4.6)	(2.5)	
Op. profit margin	nm	nm		nm		nm	2.2%	
Pre-tax margin	nm	nm		nm		nm	nm	
Net profit margin	nm	nm		nm		nm	nm	
Net assets/share (RM)	0.19							

- SMRT posted another set of loss-making results in 3QFY16, with cumulative 9MFY16 net loss widened to RM12.8 mln from RM6.4 mln a year ago.
- 9MFY16 revenue fell 24.9% y-o-y on mainly due to absence of significant contribution from the training division, which had previously contributed some RM31 mln to topline, following the completion of the English Language Training (ELT) project. Turnover from education division inched up to RM50.8 mln from RM49.3 mln y-o-y, while technology business also experienced higher revenue at RM6.5 mln vs. RM474,000 a year ago mainly due to consolidation of performance from its acquisition of 64%-stake in N'osairis.
- The education business was the only profitable segment in 9MFY16, but even then, the segmental profit declined to RM2.9 mln from RM13.4 mln previously on lower dividend income received and higher losses from associate. The training and technology businesses sustained segmental losses of RM3.7 mln and RM2.1 mln respectively.
- SMRT's outlook at this juncture remains lackluster, in our opinion, with lower profit from education segment while the training and technology divisions continue to make losses. The turnaround of its associate company, AEGB which runs the AMU, is taking much longer than initially anticipated. In view of the above, we widened our FY16 net loss estimate to RM16.9 mln on the assumption of another loss-making quarter in 4QFY16. As mentioned earlier, SMRT and AEGB have announced proposals that would involve streamlining of their education businesses, but we have not factored in the impact of the proposed transactions as they are still at preliminary stage currently and are subject to a number of approvals.
- On balance sheet strength, net gearing rose to 0.7x as at end-September 2016 from 0.6x a year ago, with net assets/share at 18.8 sen. We note that trade and other receivables have ballooned to RM54.3 mln from RM44.2 mln previously which is not too healthy a sign as it constitutes more than 60% of its annual turnover size.

Recommendation

We maintain our recommendation to **Hold** on SMRT with an unchanged fair value to **19 sen**. At this juncture, we have based our fair value on its book value given its low earnings visibility in the immediate term. The Group's prospects going forward are critically tied to its ability to turn around its training, technology as well as the AMU operations.

Per Share Data

FYE Dec	FY14	FY15	FY16f
Book Value (RM)	0.35	0.22	0.19
Cash Flow (sen)	5.6	(10.5)	(5.5)
Earnings (sen)	2.6	(12.9)	(6.5)
Net Dividend (sen)	0.5	-	-
Payout Ratio (%)	19.6%	0.0%	0.0%
PER (x)	7.1	nm	nm
P/Cash Flow (x)	3.2	nm	nm
P/Book Value (x)	0.5	0.8	0.9
Dividend Yield (%)	2.8%	0.0%	0.0%
ROE (%)	7.3%	nm	nm
Net gearing (x)	0.0	0.6	0.7

P&L Summary

FYE Dec (RM mIn)	FY12	FY13	FY14	FY15	FY16f
Revenue	61.4	52.4	121.9	102.2	87.2
EBIT	10.4	10.5	13.2	(21.3)	(5.9)
Net Int Exp	(0.4)	(0.2)	(1.4)	(3.4)	(3.1)
Pre-tax Profit	10.0	10.3	11.8	(29.0)	(13.1)
Eff. Tax Rate	14.5%	19.7%	41.5%	nm	28.0%
Net Profit	8.5	8.2	5.5	(31.0)	(16.9)
EBIT Margin (%)	16.9%	20.0%	10.8%	nm	nm
Pre-tax Margin (%)	16.3%	19.6%	9.7%	nm	nm
Net Margin (%)	13.8%	15.7%	4.5%	nm	nm

SMRT's last 12-month share price chart



Source: bursa marketplace

Analyst: Nicole Tan Yoke Ping (nicole@zj.com.my)

RATING GUIDE

BUY	Price appreciation expected to exceed 10% within the next 12 months
SELL	Price depreciation expected to exceed 10% within the next 12 months
HOLD	Price movement expected to be between -10% and +10% over the next 12 months from current level

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